

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Gibraltar, Michigan

**Financial Report
with Supplemental Information
June 30, 2006**

City of Gibraltar, Michigan

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Independent Auditor's Report

To the City Council
City of Gibraltar, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gibraltar, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gibraltar, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gibraltar, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council
City of Gibraltar, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gibraltar's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 1, 2006

City of Gibraltar, Michigan

Management's Discussion and Analysis

The following discussion and analysis of the City of Gibraltar's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- State-shared revenue, our second largest revenue source, remained fairly stable in total this year.
- Property taxes are the City's single largest source of revenue. The City's taxable value for fiscal year 2005/2006 was approximately \$147,000,000, which represents an increase of approximately \$7,100,000, or 5 percent. This increase was due to the addition of some development within the City and growth limited to inflation on existing properties. In addition, significant partial back taxes were collected on a previously defunct commercial property.
- A few budgeted positions (two police officers and one DPW position) went unfilled in the current year, thus the related budgeted expenditures contributed to cost savings in the current year.

The City closely monitors discretionary spending by performing periodic budget adjustments. For the year, the fund balance of the General Fund increased by approximately \$444,500.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Gibraltar, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and the prior year:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	\$ 1,930,041	\$ 1,511,513	\$ 434,787	\$ 411,156	\$ 2,364,828	\$ 1,922,669
Noncurrent assets	<u>7,852,928</u>	<u>8,319,930</u>	<u>10,102,279</u>	<u>10,407,314</u>	<u>17,955,207</u>	<u>18,727,244</u>
Total assets	9,782,969	9,831,443	10,537,066	10,818,470	20,320,035	20,649,913
Liabilities						
Current liabilities	775,768	1,041,003	50,531	151,274	826,299	1,192,277
Long-term liabilities	<u>4,813,450</u>	<u>5,101,050</u>	<u>2,665,647</u>	<u>2,665,005</u>	<u>7,479,097</u>	<u>7,766,055</u>
Total liabilities	<u>5,589,218</u>	<u>6,142,053</u>	<u>2,716,178</u>	<u>2,816,279</u>	<u>8,305,396</u>	<u>8,958,332</u>
Net Assets						
Invested in capital assets - Net of related debt	3,136,708	3,298,372	7,436,632	7,646,840	10,573,340	10,945,212
Restricted	107,368	91,052	57,651	96,812	165,019	187,864
Unrestricted	<u>949,675</u>	<u>299,966</u>	<u>326,605</u>	<u>258,539</u>	<u>1,276,280</u>	<u>558,505</u>
Total net assets	<u>\$ 4,193,751</u>	<u>\$ 3,689,390</u>	<u>\$ 7,820,888</u>	<u>\$ 8,002,191</u>	<u>\$ 12,014,639</u>	<u>\$ 11,691,581</u>

The City has combined net assets of approximately \$12.0 million. Business-type activities comprise approximately \$7.8 million of total net assets. In the current year, the City's combined net assets increased by approximately \$300,000, which represents a 3.0 percent increase over the prior year.

City of Gibraltar, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current and prior year:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Net Assets - Beginning of year	\$ 3,689,390	\$ 3,818,207	\$ 8,002,191	\$ 8,220,635	\$ 11,691,581	\$ 12,038,842
Revenue						
Program revenue:						
Charges for services	491,102	790,957	983,436	892,784	1,474,538	1,683,741
Operating grants and contributions	329,191	330,781	-	-	329,191	330,781
Capital grants and contributions	-	37,743	55,400	100,150	55,400	137,893
General revenue:						
Property taxes	2,577,811	2,194,862	-	-	2,577,811	2,194,862
State-shared revenue	426,866	430,164	-	-	426,866	430,164
Unrestricted investment earnings	54,619	30,377	7,066	5,562	61,685	35,939
Transfers and other revenue	200,000	115,000	-	19,589	200,000	134,589
Total revenue	4,079,589	3,929,884	1,045,902	1,018,085	5,125,491	4,947,969
Program Expenses						
General government	1,256,398	1,211,352	-	-	1,256,398	1,211,352
Public safety	1,464,290	1,442,672	-	-	1,464,290	1,442,672
Public works	642,280	1,089,102	-	-	642,280	1,089,102
Recreation and culture	8,135	94,841	-	-	8,135	94,841
Interest on long-term debt	204,125	201,145	-	-	204,125	201,145
Water and sewer	-	-	1,227,205	1,236,529	1,227,205	1,236,529
General Expense - Transfers	-	19,589	-	-	-	19,589
Total expenses	3,575,228	4,058,701	1,227,205	1,236,529	4,802,433	5,295,230
Change in Net Assets	504,361	(128,817)	(181,303)	(218,444)	323,058	(347,261)
Net Assets - End of year	\$ 4,193,751	\$ 3,689,390	\$ 7,820,888	\$ 8,002,191	\$ 12,014,639	\$ 11,691,581

Governmental Activities

During the current year, the City's governmental revenues increased by approximately \$150,000 despite the decrease in charges for services. The increases were primarily do to increases in property tax revenue and other revenue. Other revenue increased by \$85,000 over prior year to \$200,000 from funds received by the General Fund from the City's Downtown Development Authority under a revenue-sharing agreement.

Program expenses decreased by approximately \$483,000 during the current year. The decreases were primarily due to the City having three unfilled full-time positions during the year and the City closely monitoring spending in all areas.

City of Gibraltar, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide water to residents from the Detroit water system. We provide sewage treatment through the South Huron Valley Utility Authority. The operations of the current year were fairly consistent with the prior year.

The City's Funds

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2006 include the General Fund, Major Streets Fund, and the Land Revolving Fund.

The General Fund pays for most of the City's governmental services. The most significant relates to the public safety and the public works department, which incurred expenses of approximately \$1,380,000 and \$494,000, respectively, in the current year. The budget in the General Fund is basically a maintenance budget, which means it increases modestly from year to year.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. City departments overall came in at approximately 7 percent below budget, resulting in total expenditures of approximately \$236,000 below budget. In addition, revenues exceeded budget by approximately \$208,000, resulting in an overall increase in fund balance of \$444,000.

Capital Asset and Debt Administration

The City continues to collect and dedicate the millage revenues approved by the voters in November 1998 and 2002 for bond payments related to improvements to streets and the construction of the new municipal complex, respectively.

At the end of 2005, the City had approximately \$17,900,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, roads, and water and sewer lines.

City of Gibraltar, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Because of the impact of Proposal A on the taxable value of properties located within the City, the City needs to continue to watch its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering new property additions. In addition, a major taxpayer's valuation is currently the subject of a case going before the State Tax Commission.

We anticipate that the water and sewer rates will have to increase somewhat in 2007 in order to pass along increases by providers. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2007 to discuss the need for such an increase.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we invite you to contact the administration offices at City Hall.

City of Gibraltar, Michigan

Statement of Net Assets June 30, 2006

	Primary Government			Component
	Governmental	Business-type		Unit
	Activities	Activities	Total	
Assets				
Cash and investments (Note 2)	\$ 1,351,499	\$ 173,674	\$ 1,525,173	\$ 126,032
Receivables - Net (Note 3)	496,908	227,357	724,265	4,599
Internal balances	23,895	(23,895)	-	-
Prepaid costs and other assets	57,739	-	57,739	-
Restricted assets (Note 7)	-	57,651	57,651	-
Capital assets not being depreciated (Note 4)	228,142	26,007	254,149	834,731
Capital assets being depreciated (Note 4)	7,624,786	10,076,272	17,701,058	2,936,434
Total assets	9,782,969	10,537,066	20,320,035	3,901,796
Liabilities				
Accounts payable	107,505	50,531	158,036	2,333
Accrued and other liabilities	397,256	-	397,256	20,327
Compensated absences:				
Due within one year	18,412	-	18,412	-
Due in more than one year	349,825	-	349,825	-
Noncurrent liabilities (Note 6):				
Due within one year	252,595	159,721	412,316	120,000
Due in more than one year	4,463,625	2,505,926	6,969,551	3,145,000
Total liabilities	5,589,218	2,716,178	8,305,396	3,287,660
Net Assets				
Invested in capital assets - Net of related debt	3,136,708	7,436,632	10,573,340	506,165
Restricted:				
Streets and highways	74,382	-	74,382	-
Debt service	28,589	-	28,589	-
Drug forfeiture	4,397	-	4,397	-
Restricted assets	-	57,651	57,651	-
Unrestricted	949,675	326,605	1,276,280	107,971
Total net assets	<u>\$ 4,193,751</u>	<u>\$ 7,820,888</u>	<u>\$ 12,014,639</u>	<u>\$ 614,136</u>

City of Gibraltar, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,256,398	\$ 321,614	\$ 90,285	\$ -
Public safety	1,464,290	123,687	6,228	-
Public works	642,280	-	232,678	-
Recreation and culture	8,135	45,801	-	-
Interest on long-term debt	204,125	-	-	-
Total governmental activities	3,575,228	491,102	329,191	-
Business-type activities - Water and sewer	1,227,205	983,436	-	55,400
Total primary government	<u>\$ 4,802,433</u>	<u>\$ 1,474,538</u>	<u>\$ 329,191</u>	<u>\$ 55,400</u>
Component units - Downtown Development Authority				
	<u>\$ 475,358</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous revenues				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (844,499)	\$ -	\$ (844,499)	\$ -
(1,334,375)	-	(1,334,375)	-
(409,602)	-	(409,602)	-
37,666	-	37,666	-
(204,125)	-	(204,125)	-
(2,754,935)	-	(2,754,935)	-
-	(188,369)	(188,369)	-
(2,754,935)	(188,369)	(2,943,304)	-
-	-	-	(475,358)
2,577,811	-	2,577,811	529,216
426,866	-	426,866	-
54,619	7,066	61,685	6,629
200,000	-	200,000	-
3,259,296	7,066	3,266,362	535,845
504,361	(181,303)	323,058	60,487
3,689,390	8,002,191	11,691,581	553,649
\$ 4,193,751	\$ 7,820,888	\$ 12,014,639	\$ 614,136

City of Gibraltar, Michigan

Governmental Funds Balance Sheet June 30, 2006

		Special Revenue			
		Major Streets	Land Revolving	Nonmajor	Total
	General Fund	Fund	Fund	Governmental	Governmental
				Funds	Funds
Assets					
Cash and investments	\$ 726,760	\$ 188,396	\$ 85,033	\$ 351,310	\$ 1,351,499
Property taxes receivable	224,705	-	-	12,946	237,651
Accrued interest	21,506	114	7,310	259	29,189
Other receivables	12,233	-	-	11,678	23,911
Due from other governmental units	86,956	27,182	-	10,159	124,297
Due from other funds	22,697	-	108,090	-	130,787
Advance to other fund	42,065	-	498,568	-	540,633
Prepaid expenditures	57,739	-	-	-	57,739
Total assets	<u>\$ 1,194,661</u>	<u>\$ 215,692</u>	<u>\$ 699,001</u>	<u>\$ 386,352</u>	<u>\$ 2,495,706</u>
Liabilities and Fund Balances (Deficit)					
Liabilities					
Accounts payable	\$ 98,750	\$ 1,030	\$ -	\$ 7,725	\$ 107,505
Accrued and other liabilities	3,728	-	-	-	3,728
Due to other funds	84,195	10,840	-	11,857	106,892
Advance from other funds	-	540,633	-	-	540,633
Deposits	341,566	-	-	-	341,566
Total liabilities	528,239	552,503	-	19,582	1,100,324
Fund Balances (Deficit)					
Reserved for:					
Prepaid expenditures	57,739	-	-	-	57,739
Advance to other fund	42,065	-	498,568	-	540,633
Unreserved, reported in:					
General Fund	566,618	-	-	-	566,618
Special Revenue Funds	-	(336,811)	200,433	338,181	201,803
Debt Service Funds	-	-	-	28,589	28,589
Total fund balances (deficit)	666,422	(336,811)	699,001	366,770	1,395,382
Total liabilities and fund balances (deficit)	<u>\$ 1,194,661</u>	<u>\$ 215,692</u>	<u>\$ 699,001</u>	<u>\$ 386,352</u>	<u>\$ 2,495,706</u>
Fund Balance of Governmental Activities					\$ 1,395,382
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					7,852,928
State-shared revenue related to the current period but not received until the following period is not reported in the					81,860
Compensated absences are not included as a liability of the funds					(368,237)
Accrued interest on long-term liabilities is not recorded in the funds					(51,962)
Long-term liabilities are not due and payable in the current period and are not reported in the funds					(4,716,220)
Net Assets of Governmental Activities					<u>\$ 4,193,751</u>

City of Gibraltar, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2006

	Special Revenue				
		Major Streets	Land	Other	Total
	General Fund	Fund	Revolving	Nonmajor	Governmental
			Fund	Governmental	Funds
				Funds	Funds
Revenue					
Property taxes	\$ 2,191,336	\$ -	\$ -	\$ 386,475	\$ 2,577,811
Licenses and permits	123,867	-	-	-	123,867
Federal grants	88,246	-	-	-	88,246
State-shared revenues, grants, and other state aid	436,278	169,106	-	63,572	668,956
Cable fees	-	-	-	4,621	4,621
Other charges for services	93,526	-	-	-	93,526
Fines and forfeitures	10,496	-	-	-	10,496
Interest and rentals	34,845	4,348	2,438	12,988	54,619
Other	354,243	-	2,176	35,973	392,392
Total revenue	3,332,837	173,454	4,614	503,629	4,014,534
Expenditures					
Current:					
General government	855,355	-	-	-	855,355
Public safety	1,380,203	-	-	-	1,380,203
Public works	494,199	-	-	-	494,199
Community maintenance and development	-	23,657	2,935	29,631	56,223
Recreation and culture	47,873	-	-	-	47,873
Public improvement grants	90,764	-	-	-	90,764
Other	-	-	-	950	950
Debt service - Interest	-	-	-	195,684	195,684
Debt service - Principal repayment	-	-	-	205,000	205,000
Total expenditures	2,868,394	23,657	2,935	431,265	3,326,251
Excess of Revenue Over Expenditures	464,443	149,797	1,679	72,364	688,283
Other Financing Sources (Uses)					
Transfers in	-	-	-	25,000	25,000
Transfers out	(20,000)	(1,350)	-	(3,650)	(25,000)
Total other financing sources (uses)	(20,000)	(1,350)	-	21,350	-
Net Change in Fund Balances	444,443	148,447	1,679	93,714	688,283
Fund Balances (Deficit) - Beginning of year	221,979	(485,258)	697,322	273,056	707,099
Fund Balances (Deficit) - End of year	<u>\$ 666,422</u>	<u>\$ (336,811)</u>	<u>\$ 699,001</u>	<u>\$ 366,770</u>	<u>\$ 1,395,382</u>

City of Gibraltar, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ 688,283
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	100,608
Governmental funds depreciation expense on fixed assets are reported as an expense on the statement of activities and are not reported as an expense for fund purposes	(567,610)
State-shared revenue is recorded when earned in the statement of activities versus when available in the governmental funds	764
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	305,338
Accrued interest expense on long-term debt is recorded in the statement of activities	3,596
Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	<u>(26,618)</u>
Change in Net Assets of Governmental Activities	<u>\$ 504,361</u>

City of Gibraltar, Michigan

Proprietary Funds Statement of Net Assets June 30, 2006

	<u>Water and Sewer Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 173,674
Accounts receivable:	
Customers	213,675
Accrued interest	136
Due from other funds	45,471
Other	<u>13,546</u>
Total current assets	446,502
Noncurrent assets:	
Restricted assets	57,651
Capital assets - Net	<u>10,102,279</u>
Total noncurrent assets	<u>10,159,930</u>
Total assets	10,606,432
Liabilities	
Current liabilities:	
Accounts payable	50,531
Due to other funds	69,366
Current portion of long-term debt	<u>159,721</u>
Total current liabilities	279,618
Noncurrent liabilities - Long-term debt - Net of current portion	<u>2,505,926</u>
Total liabilities	<u>2,785,544</u>
Net Assets	
Investment in capital assets - Net of related debt	7,436,632
Restricted	57,651
Unrestricted	<u>326,605</u>
Total net assets	<u><u>\$ 7,820,888</u></u>

City of Gibraltar, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Water and Sewer Fund
Operating Revenue	
Sewage disposal	\$ 476,850
Sale of water	401,251
Other charges for services	661
Total operating revenue	878,762
Operating Expenses	
Cost of water produced/purchased	260,967
Cost of sewage disposal	283,878
Operation and maintenance	48,214
General and administrative	269,266
Depreciation	305,035
Total operating expenses	1,167,360
Operating Loss	(288,598)
Nonoperating Income (Expense)	
Interest income	7,066
Tap-in fees	55,400
Interest expense	(59,845)
Debt service charges	104,674
Total nonoperating income	107,295
Change in Net Assets	(181,303)
Net Assets - July 1, 2005	8,002,191
Net Assets - June 30, 2006	\$ 7,820,888

City of Gibraltar, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Enterprise - Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 931,055
Payments to suppliers and employees	(617,599)
Internal activity - Reimbursements to other funds	(322,782)
Net cash used in operating activities	(9,326)
Cash Flows from Capital and Related Financing Activities	
Principal payments on long-term debt	(94,827)
Debt service charges	104,674
Interest paid on bonds	(59,845)
Tap-in fees	55,400
Net cash provided by capital and related financing activities	5,402
Cash Flows from Investing Activities - Interest received on investments	7,066
Net Increase in Cash and Cash Equivalents	3,142
Cash and Cash Equivalents - Beginning of year	202,752
Cash and Cash Equivalents - End of year	\$ 205,894
Balance Sheet Classification of Cash and Cash Equivalents	
Cash and investments	\$ 173,674
Restricted assets (Note 7)	32,220
Total cash and cash equivalents	\$ 205,894
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (288,598)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	305,035
Changes in assets and liabilities:	
Receivables	42,099
Other assets	10,194
Interfund activity	(72,782)
Accounts payable	(5,274)
Net cash used in operating activities	\$ (9,326)

City of Gibraltar, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2006

	Pension Trust Funds	Agency Fund
Assets		
Cash and cash equivalents	\$ 371,372	\$ 11,280
Stocks	4,163,855	-
Bonds	3,641,407	-
Receivables - Accrued interest	39,377	-
Total assets	8,216,011	<u><u>\$ 11,280</u></u>
Liabilities		
Due to other governmental units	-	\$ 4,030
Insurance deposits	-	7,250
Total liabilities	-	<u><u>\$ 11,280</u></u>
Net Assets - Held in trust for employees' retirement systems		
	<u><u>\$ 8,216,011</u></u>	

City of Gibraltar, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2006

	Pension and Trust Funds
Additions	
Investment income:	
Interest and dividends	\$ 346,325
Investment expense	(47,402)
Net increase in fair value of investments	<u>160,398</u>
Net investment income	459,321
Contributions:	
Employer	98,383
Employee	<u>54,387</u>
Total contributions	<u>152,770</u>
Total additions	612,091
Deductions - Benefit payments	<u>343,998</u>
Net Increase in Net Assets Held in Trust	268,093
Net Assets Held in Trust for Pension Benefits	
Beginning of year	<u>7,947,918</u>
End of year	<u><u>\$ 8,216,011</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Gibraltar, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected six-member council and mayor. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are separate legal entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

The Downtown Development Authority is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the City. The Downtown Development Authority was created to promote economic growth within the downtown district. The Authority's governing body consists of nine individuals, all of whom are approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; in this case, receivables are recorded for these, along with a "deferred revenue" liability. All other revenue items are considered to be available only when cash is received by the City.

Note I - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

Major Streets Fund - The Major Streets Fund is used to account for the construction and maintenance of the City's major streets. Revenues received under ACT 51 for use on major streets are recorded in this fund.

Land Revolving Fund - The Land Revolving Fund is used to account for proceeds from City land sales as well as any expenditures made with these funds for community improvements.

The City reports the following major proprietary fund:

Enterprise Fund - The Enterprise Fund - Water and Sewer Fund is used to account for the results of operations that provide a service to citizens and are financed primarily by a user charge for the provision of that service.

Additionally, the City reports the following fund types:

Pension Trust Funds - The Pension Trust Funds account for the resources set aside by the City to provide retirement benefits for its employees in accordance with resolutions, ordinances, employee agreements, and union contracts.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Operating expenses for proprietary funds include the cost of source of supply, transmission and distribution maintenance, and administrative and general expenses, including depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expense.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The 2005 taxable valuation of the City totaled \$147 million (a portion of which is abated and a portion of which is captured by the DDA) on which taxes levied consisted of 15.34 mills for operating purposes, 1.37 mills for solid waste services, and 2.64 mills for debt service. This resulted in \$1.85 million for operating, \$174,000 for solid waste services, and \$387,000 for debt service. These amounts are recognized in the General and Debt Service Funds financial statements as tax revenue.

Note 1 - Summary of Significant Accounting Policies (Continued)

During the current year, the City entered into a sharing agreement with the DDA whereby the DDA shared tax increment revenues in the amount of \$200,000 with the General Fund. There were no taxes shared by the DDA with other taxing entities.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	10 to 25 years
Water and sewer distribution systems	50 to 75 years
Buildings and building improvements	40 years
Vehicles	3 to 10 years
Furniture and equipment	5 to 15 years

Note I - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick and vacation pay is accrued when earned. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investments vehicles.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in those investment vehicles listed above under the State statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a policy for custodial credit risk. At year end, the City had \$1,311,800 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Investment pools (pension)	\$ 271,717	4.49 years
U.S. government or agency (pension)	2,425,652	9.75 years
Corporate bonds (pension)	637,024	6.17 years

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Investment pools (pension)	\$ 1,221,821	Not Rated	
Mutual funds (pension)	3,892,137	Not Rated	
Corporate bonds (pension)	49,147	AAA	S&P
	43,441	AA	S&P
	50,277	AA-	S&P
	264,090	A+	S&P
	166,885	A	S&P
	63,184	A-	S&P
U.S. agencies not explicitly guaranteed by the U.S. government (pension)	211,913	AAA	S&P
	663,667	Not Rated	

City of Gibraltar, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds in the aggregate, business type, and component unit, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Streets Fund	Land Revolving Fund	Nonmajor and Other Funds	Total Governmental	Business-type	Component Unit
Receivables:							
Taxes	\$ 389,888	\$ -	\$ -	\$ 12,946	\$ 402,834	\$ -	\$ -
Intergovernmental	168,816	27,182	-	10,159	206,157	-	-
Customers	-	-	-	-	-	227,357	-
Interest and other	33,739	114	7,310	11,937	53,100	-	4,599
Less allowance for uncollectibles	(165,183)	-	-	-	(165,183)	-	-
Net receivables	<u>\$ 427,260</u>	<u>\$ 27,296</u>	<u>\$ 7,310</u>	<u>\$ 35,042</u>	<u>\$ 496,908</u>	<u>\$ 227,357</u>	<u>\$ 4,599</u>

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Governmental Activities				
Capital assets not being depreciated - Land	\$ 228,142	\$ -	\$ -	\$ 228,142
Capital assets being depreciated:				
Roads and sidewalks	5,110,274	-	-	5,110,274
Buildings and improvements	3,642,203	25,629	-	3,667,832
Vehicles	1,722,017	67,562	-	1,789,579
Furniture and equipment	738,603	7,417	-	746,020
Subtotal	11,213,097	100,608	-	11,313,705
Accumulated depreciation:				
Roads and sidewalks	1,200,674	257,482	-	1,458,156
Buildings and improvements	351,519	82,526	-	434,045
Vehicles	1,026,535	162,836	-	1,189,371
Furniture and equipment	542,581	64,766	-	607,347
Subtotal	3,121,309	567,610	-	3,688,919
Net capital assets being depreciated	<u>8,091,788</u>	<u>(467,002)</u>	<u>-</u>	<u>7,624,786</u>
Net capital assets	<u>\$ 8,319,930</u>	<u>\$ (467,002)</u>	<u>\$ -</u>	<u>\$ 7,852,928</u>

City of Gibraltar, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$ 26,007	\$ -	\$ -	\$ 26,007
Construction in progress	1,523,882	-	1,523,882	-
Subtotal	1,549,889	-	1,523,882	26,007
Capital assets being depreciated:				
Water and sewer distribution systems	11,877,541	1,523,882	-	13,401,423
Equipment	538,528	-	-	538,528
Subtotal	12,416,069	1,523,882	-	13,939,951
Accumulated depreciation	3,558,644	305,035	-	3,863,679
Net capital assets being depreciated	8,857,425	1,218,847	-	10,076,272
Net capital assets	\$ 10,407,314	\$ 1,218,847	\$ 1,523,882	\$ 10,102,279

Capital asset activity for the City of Gibraltar's component unit for the year was as follows:

Downtown Development Authority	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Capital assets not being depreciated -				
Land	\$ 834,731	\$ -	\$ -	\$ 834,731
Capital assets being depreciated:				
Buildings and improvements	2,934,405	-	-	2,934,405
Furniture and equipment	209,497	-	-	209,497
Subtotal	3,143,902	-	-	3,143,902
Accumulated depreciation:				
Buildings and improvements	66,024	66,026	-	132,050
Furniture and equipment	37,709	37,709	-	75,418
Subtotal	103,733	103,735	-	207,468
Net capital assets being depreciated	3,040,169	(103,735)	-	2,936,434
Net capital assets	\$ 3,874,900	\$ (103,735)	\$ -	\$ 3,771,165

City of Gibraltar, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government and component unit as follows:

Governmental activities:

General government	\$ 321,431
Public safety	117,133
Public works	101,822
Recreation and culture	<u>27,224</u>

Total governmental activities	<u>\$ 567,610</u>
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Business-type activities - Water and sewer	<u>\$ 305,035</u>
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Component unit activities	<u>\$ 103,735</u>
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Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Other governmental funds	\$ 11,857
General Fund	Major Street Fund	10,840
Water and Sewer Fund	General Fund	45,471
Land Revolving Fund	Water and Sewer Fund	69,366
Land Revolving Fund	General Fund	<u>38,724</u>
Total		<u>\$ 176,258</u>
Advances from/to Other Funds		
General Fund	Major Street Fund	\$ 42,065
Land Fund	Major Street Fund	<u>498,568</u>
Total		<u>\$ 540,633</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

City of Gibraltar, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Public Works Severance Reserve Fund	\$ 20,000
Local Streets Fund	Road Bonds Fund	3,650
Major Streets Fund	Road Bonds Fund	1,350
Total transfers		<u>\$ 25,000</u>

The transfer from the General Fund to the Public Works Severance Reserve represents the use of unrestricted resources to finance this program. In accordance with budgetary authorizations, the transfers from the Major Streets Fund, and the Local Streets Fund to the Road Bonds Fund, represent the movement of resources to be used to service street-related debt.

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General obligation bonds:						
Road Unlimited Tax Bonds:						
Amount of issue: \$2,500,000	4.00% -	\$165,000 -				
Maturing through 2013	4.25%	\$230,000	\$ 1,720,000	\$ (155,000)	\$ 1,565,000	\$ 165,000
General Obligation Unlimited Tax Bonds:						
Amount of issue: \$3,000,000	2.25% -	\$50,000 -				
Maturing through 2034	4.75%	\$200,000	2,950,000	(50,000)	2,900,000	50,000
Installment purchase agreements:						
District Court Installment Contract:						
Amount of issue: \$2,000,000						
Maturing through 2006	N/A	N/A	64,291	(64,291)	-	-
Fire Truck Installment Note:						
Amount of issue: \$355,906		\$37,595 -				
Maturing through 2012	4.29%	\$46,392	287,267	(36,047)	251,220	37,595
Total governmental activities			\$ 5,021,558	\$ (305,338)	\$ 4,716,220	\$ 252,595

City of Gibraltar, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Long-term Debt

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Business-type Activities						
General obligation bonds:						
South Huron Valley Utility Authority						
Wastewater Bonds:						
Amount of issue: \$461,433		\$46,655 -				
Maturing through 2011	2.00%	\$50,267	\$ 287,756	\$ (45,451)	\$ 242,305	\$ 46,655
South Huron Valley Utility Authority						
Sewer System Plant Expansion Bonds:						
Amount of issue: \$1,137,791		\$51,086 -				
Maturing through 2021	2.00%	\$69,683	948,836	(49,376)	899,460	51,086
South Huron Valley Utility Authority						
Sewer System Plant Expansion Bonds:						
Amount of issue: \$1,523,882		\$61,980 -				
Maturing through 2026	2.125%	\$92,557	1,523,882	-	1,523,882	61,980
Total business-type activities			\$ 2,760,474	\$ (94,827)	\$ 2,665,647	\$ 159,721

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 252,595	\$ 201,292	\$ 453,887	\$ 159,721	\$ 56,411	\$ 216,132
2008	259,210	191,668	450,878	162,519	52,990	215,509
2009	275,893	181,207	457,100	166,358	49,507	215,865
2010	287,650	170,150	457,800	169,982	45,945	215,927
2011	304,481	158,372	462,853	172,994	42,303	215,297
2012-2016	1,041,391	619,064	1,660,455	657,879	167,338	825,217
2017-2021	425,000	481,399	906,399	731,775	92,041	823,816
2022-2026	560,000	368,351	928,351	444,419	28,695	473,114
2027-2031	750,000	219,572	969,572	-	-	-
2032-2034	560,000	40,006	600,006	-	-	-
Total	\$ 4,716,220	\$ 2,631,081	\$ 7,347,301	\$ 2,665,647	\$ 535,230	\$ 3,200,877

Component Units - Long-term debt of the component units consists of one bond issue in the amount of \$3,500,000 maturing through 2024 and bearing interest at rates ranging from 2.25 percent to 4.35 percent. As of year end, the remaining principal balance was \$3,265,000.

Note 7 - Restricted Assets

Specific assets of the Enterprise Fund have been restricted to pay the various sewer and wastewater bonds. These funds were generated through specific user charges. Net assets have been reserved for net restricted assets. Following is the detail of restricted assets at June 30, 2006:

Cash and cash equivalents	\$ 32,220
Accounts receivable	<u>25,431</u>
Total restricted assets	<u>\$ 57,651</u>

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation and participates in the Michigan Municipal Risk Management Authority risk pool for general and property claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority's state pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

Note 9 - Defined Benefit Pension Plan

Public Safety Officers' Retirement System

Plan Description - The Public Safety Officers' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Gibraltar Public Safety Officers' Retirement System Pension Board; this plan covers all full-time public safety employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2005, the date of the most recent actuarial valuation, membership consisted of 10 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and nine active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 7 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost - For the year ended June 30, 2006, the City's annual pension cost of \$26,679 was equal to the City's actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2005, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7.0 percent investment rate of return, (b) projected salary increases of 5.5 percent to 8.5 percent per year (both (a) and (b) include inflation adjustments of 5 percent annually), and (c) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

For each of the previous five years, the annual pension cost (APC) for the plan was \$0. Therefore, the correlating percentage of APC contributed and the net pension obligation were also \$0. The recommended actuarial contribution of \$26,679 was made in the current year, resulting in a net pension obligation of \$0.

Note 9 - Defined Benefit Pension Plan (Continued)

Reserves - As of June 30, 2006, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 416,206
Reserve for retired benefit payments	3,802,099

General Employees' Retirement System

Plan Description - The General Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Gibraltar General Employees' Retirement System Pension Board; this plan covers certain full-time general employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2005, the date of the most recent actuarial valuation, membership consisted of one retiree currently receiving benefits, and eight current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Employees are obligated to contribute 5.0 percent of their total compensation.

Annual Pension Cost - For the year ended June 30, 2006, the City's annual pension cost of \$71,704 was equal to the City's actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2005, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 6.0 investment rate of return (b) projected salary increases of 3.5 percent per year attributable to inflation, and (c) no postretirement benefit increases. The actuarial value of assets was determined using fair market value. The unfunded actuarial liability is being amortized over the average future working lifetime of the plan participants.

City of Gibraltar, Michigan

Notes to Financial Statements June 30, 2006

Note 9 - Defined Benefit Pension Plan (Continued)

The three-year trend information for the plan is as follows:

	Fiscal Year Ended June 30		
	2006	2005	2004
Annual pension cost (APC)	\$ 71,704	\$ 65,418	\$ 112,129
Percentage of APC contributed	100%	54%	100%
Net pension obligation	\$ -	\$ -	\$ -

Reserves - As of June 30, 2006, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 248,711
Reserve for retired benefit payments	22,940

Note 10 - Other Postemployment Benefits

The City provides health care benefits to retirees in accordance with labor contracts. Currently, 17 retirees are eligible. The City includes retirees and their dependents in its insured health care plan, with no contribution required by the participant. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due. These benefits are paid annually from the General Fund and totaled approximately \$260,000 during the year ended June 30, 2006.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Note 11 - Joint Venture

33rd District Court - The City is a member of the 33rd District Court System (the "District Court"). The City appoints one member to the joint venture's governing board, who then approves the annual budget. The District Court receives its operating revenue principally through contributions from the member communities. During the year ended June 30, 2006, the City received net fines and forfeitures of approximately \$10,500. The debt of the joint venture, which was financed by member contributions, was paid in full during the fiscal year. Debt service payments of approximately \$64,300 were deducted from the District Court revenue remitted to the City during the year ended June 30, 2006.

Complete financial statements for the District Court can be obtained from the administrative offices at 19000 Van Horn Rd., Woodhaven, MI 48183. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

South Huron Valley Utility Authority - The City is a member of the South Huron Valley Utility Authority, which provides sanitary sewage disposal services. Each of the eight member communities appoints one member to the board. The Authority receives its operating revenue through charges to the communities. The City's share of the debt of the joint venture is being financed by the City through debt service charges. During the year ended June 30, 2006, the City paid operating costs of \$283,878. In addition, the City paid \$94,827 in principal payments and \$55,182 in interest expense. Complete financial statements for the Authority can be obtained from the administrative offices at 46425 Tyler Road, Belleville, MI 48111.

City of Gibraltar, Michigan

Notes to Financial Statements June 30, 2006

Note 12 - Construction Code Fees

The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that these fees are used only for construction code costs, including an allocation of estimated overhead costs. The amount of the cumulative surplus at year end is reserved within the General Fund fund balance. A summary of the activity since January 1, 2000 is as follows:

Cumulative surplus at July 1, 2005	\$ 14,570
Current year building permit revenue	79,319
Current year related expenditures:	
Direct costs	\$ 66,167
Estimated indirect costs	<u>36,000</u>
Total construction code expenditures	<u>102,167</u>
Cumulative shortfall at June 30, 2006	<u>\$ (8,278)</u>

Note 13 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted for the General Fund and all Special Revenue Funds.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in "revenue" and "expenditure" categories, rather than "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.

Any expenditures that exceed the budget must be approved by the City Council through a budget amendment. The Council approves all budget amendments. All annual appropriations lapse at fiscal year end.

The budget process begins in March, with the finance director's budgeting the personnel and fringe benefits expense for all City employees and providing each department with a budget form to be completed by the department head. When these forms are returned, the finance director then analyzes these amounts and calculates the total budget.

Note 13 - Stewardship, Compliance, and Accountability (Continued)

After the final review, the finance director organizes the final proposed budget to deliver to the City Council. The City Charter requires that the City Council adopt a budget by the second meeting in May.

City Council meetings, held in early May, provide all interested citizens an open forum where their concerns can be heard. Upon review, and a subsequent public hearing, the Council adopts the proposed budget by resolution.

After the budget has been adopted, all budget amendments must be approved by the Council.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

Major Streets Fund	Final Budget	Actual	Variance
Traffic services	\$ 1,000	\$ 1,854	\$ (854)
Auditing and accounting service expense	2,000	4,275	(2,275)
Transfer to other fund	-	1,350	(1,350)

The unfavorable variances in the Major Streets Fund were caused by unanticipated expenditures that became necessary during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City has an accumulated deficit in the Major Streets Fund. The deficit will be eliminated through receipt of future ACT 51 revenues.

Required Supplemental Information

City of Gibraltar, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 221,979	\$ 221,979	\$ 221,979	\$ -
Revenues				
Property taxes	1,842,161	2,011,169	2,191,336	180,167
Federal sources	79,500	93,000	88,246	(4,754)
State sources	435,370	444,895	436,278	(8,617)
Fees and permits	127,524	141,000	123,867	(17,133)
Fines and forfeitures	1,500	10,000	10,496	496
Charges for services	419,608	325,384	343,526	18,142
Interest income	17,670	27,670	34,845	7,175
Other	370,000	321,500	354,243	32,743
Total revenues	3,293,333	3,374,618	3,582,837	208,219
Expenditures				
General government:				
General government	304,573	321,004	262,984	58,020
Clerk	82,251	82,251	77,730	4,521
Attorney	102,835	140,000	134,197	5,803
Finance	115,293	115,293	115,061	232
Public library	15,000	15,000	14,495	505
Refuse collection	168,400	168,400	162,927	5,473
Parks and recreation	16,053	41,338	33,378	7,960
Engineering/Inspection	71,400	69,200	68,050	1,150
Assessor	17,060	27,260	27,026	234
Grants	62,000	97,378	90,764	6,614
Elections	14,000	8,160	7,380	780
Public safety:				
Police	1,321,325	1,311,325	1,228,890	82,435
Fire	127,697	153,063	151,313	1,750
Public works	875,446	804,946	744,199	60,747
Transfers to other funds	-	20,000	20,000	-
Total expenditures	3,293,333	3,374,618	3,138,394	236,224
Fund Balance - End of year	\$ 221,979	\$ 221,979	\$ 666,422	\$ 444,443

City of Gibraltar, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Deficit - Beginning of year	\$ (485,258)	\$ (485,258)	\$ (485,258)	\$ -
Revenues				
State sources	176,370	176,370	169,106	(7,264)
Interest income	<u>400</u>	<u>400</u>	<u>4,348</u>	<u>3,948</u>
Total revenues	176,770	176,770	173,454	(3,316)
Expenditures				
Engineering fees	2,000	2,000	299	1,701
Operating expense	2,000	2,000	-	2,000
Traffic services	1,000	1,000	1,854	(854)
Snow and ice removal	20,000	20,000	9,985	10,015
Auditing and accounting service expense	2,000	2,000	4,275	(2,275)
Transfer to other fund	-	-	1,350	(1,350)
Maintenance	<u>10,000</u>	<u>10,000</u>	<u>7,244</u>	<u>2,756</u>
Total expenditures	<u>37,000</u>	<u>37,000</u>	<u>25,007</u>	<u>11,993</u>
Deficit - End of year	<u>\$ (345,488)</u>	<u>\$ (345,488)</u>	<u>\$ (336,811)</u>	<u>\$ 8,677</u>

City of Gibraltar, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Land Revolving Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 697,322	\$ 697,322	\$ 697,322	\$ -
Revenues				
Interest income	1,600	1,600	2,438	838
Other	<u>15,000</u>	<u>15,000</u>	<u>2,176</u>	<u>(12,824)</u>
Total revenues	16,600	16,600	4,614	(11,986)
Expenditures				
Improvements	15,750	15,750	2,085	13,665
Other	<u>850</u>	<u>850</u>	<u>850</u>	<u>-</u>
Total expenditures	<u>16,600</u>	<u>16,600</u>	<u>2,935</u>	<u>13,665</u>
Fund Balance - End of year	<u><u>\$ 697,322</u></u>	<u><u>\$ 697,322</u></u>	<u><u>\$ 699,001</u></u>	<u><u>\$ 1,679</u></u>

City of Gibraltar, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2006

The schedule of funding progress is as follows (in thousands of dollars):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
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General Employees' Retirement System

6/30/00	\$ 580	\$ 681	\$ 101	85.2	\$ 281	35.9
6/30/01	668	772	104	86.5	301	34.5
6/30/02	566	734	168	77.1	292	57.5
6/30/03	618	844	226	73.2	352	64.2
6/30/04	747	964	217	77.5	363	59.8
6/30/05	827	999	171	82.9	317	53.9

Public Safety Officers' Retirement System

6/30/00	\$ 6,700	\$ 4,700	\$ (2,000)	142.6	\$ 700	-
6/30/01	7,100	5,400	(1,700)	131.5	800	-
6/30/02	7,200	5,900	(1,300)	122.0	900	-
6/30/03	7,300	6,000	(1,300)	121.7	800	-
6/30/04	7,200	6,400	(800)	113.0	700	-
6/30/05	7,200	6,500	(700)	111.0	700	-

City of Gibraltar, Michigan

Required Supplemental Information Pension System Schedule of Employer Contributions June 30, 2006

The schedule of employer contributions is as follows:

General Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/01	6/30/00	\$ 19,927	125
6/30/02	6/30/01	27,034	130
6/30/03	6/30/02	44,470	79
6/30/04	6/30/03	112,129	100
6/30/05	6/30/04	65,418	54
6/30/06	6/30/05	71,704	100

Public Safety Officers' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/01	6/30/00	\$ -	-
6/30/02	6/30/01	-	-
6/30/03	6/30/02	-	-
6/30/04	6/30/03	-	-
6/30/05	6/30/04	-	-
6/30/06	6/30/05	26,679	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, the latest actuarial valuation, for the General Employees and the Public Safety Officers Retirement Systems, is as follows:

General Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level dollar method
Remaining amortization period (perpetual)	13 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	3.5%
Cost of living adjustments	None

Public Safety Officers' Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	10 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.0%
Projected salary increases*	5.5%-8.5%
*Includes inflation at	5.0%

Other Supplemental Information

City of Gibraltar, Michigan

Special Revenue Funds						
	Local Streets	Cable TV	City Project	Public Safety Severance Reserve	Public Works Severance Reserve	Drug Forfeiture
Assets						
Cash and investments	\$ 77,060	\$ 20,075	\$ 164,245	\$ 39,568	\$ 34,840	\$ 4,397
Receivables - Net	-	-	-	-	-	-
Accrued interest and dividends	50	19	160	7	23	-
Due from other governmental units	10,159	-	-	-	-	-
Other receivables	-	1,233	-	-	-	-
Total assets	<u>\$ 87,269</u>	<u>\$ 21,327</u>	<u>\$ 164,405</u>	<u>\$ 39,575</u>	<u>\$ 34,863</u>	<u>\$ 4,397</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 1,030	\$ 768	\$ -	\$ -	\$ -	\$ -
Due to other funds	11,857	-	-	-	-	-
Total liabilities	12,887	768	-	-	-	-
Fund Balances - Unreserved	<u>74,382</u>	<u>20,559</u>	<u>164,405</u>	<u>39,575</u>	<u>34,863</u>	<u>4,397</u>
Total liabilities and fund balances	<u>\$ 87,269</u>	<u>\$ 21,327</u>	<u>\$ 164,405</u>	<u>\$ 39,575</u>	<u>\$ 34,863</u>	<u>\$ 4,397</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

<u>Debt Service Funds</u>		
<u>Road Bond</u>	<u>City Hall Bonds</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 11,125	\$ 351,310
12,946	-	12,946
-	-	259
-	-	10,159
-	10,445	11,678
<u>\$ 12,946</u>	<u>\$ 21,570</u>	<u>\$ 386,352</u>
\$ 5,927	\$ -	\$ 7,725
-	-	11,857
5,927	-	19,582
7,019	21,570	366,770
<u>\$ 12,946</u>	<u>\$ 21,570</u>	<u>\$ 386,352</u>

City of Gibraltar, Michigan

	Special Revenue Funds					
	Local Streets	Cable TV	City Project	Public Safety Severance Reserve	Public Works Severance Reserve	Drug Forfeiture
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	63,572	-	-	-	-	-
Cable fees	-	4,621	-	-	-	-
Interest income	2,405	480	5,157	1,102	996	23
Tipping fees and other	-	-	35,223	-	-	750
Total revenue	65,977	5,101	40,380	1,102	996	773
Expenditures						
Community maintenance and development	25,830	3,651	150	-	-	-
Other	-	-	-	750	200	-
Debt service	-	-	-	-	-	-
Total expenditures	25,830	3,651	150	750	200	-
Excess of Revenue Over (Under) Expenditures	40,147	1,450	40,230	352	796	773
Other Financing Sources (Uses)						
Transfers in	-	-	-	10,000	10,000	-
Transfers out	(3,650)	-	-	-	-	-
Total other financing sources (uses)	(3,650)	-	-	10,000	10,000	-
Net Change in Fund Balances	36,497	1,450	40,230	10,352	10,796	773
Fund Balances - Beginning of year	37,885	19,109	124,175	29,223	24,067	3,624
Fund Balances - End of year	<u>\$ 74,382</u>	<u>\$ 20,559</u>	<u>\$ 164,405</u>	<u>\$ 39,575</u>	<u>\$ 34,863</u>	<u>\$ 4,397</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2006

Debt Service Funds		
Road Bond	City Hall Bonds	Total Nonmajor Governmental Funds
\$ 222,100	\$ 164,375	\$ 386,475
-	-	63,572
-	-	4,621
508	2,317	12,988
-	-	35,973
222,608	166,692	503,629
-	-	29,631
-	-	950
224,990	175,694	400,684
224,990	175,694	431,265
(2,382)	(9,002)	72,364
5,000	-	25,000
-	-	(3,650)
5,000	-	21,350
2,618	(9,002)	93,714
4,401	30,572	273,056
\$ 7,019	\$ 21,570	\$ 366,770

City of Gibraltar, Michigan

Other Supplemental Information Combining Statement of Net Assets Pension Trust Funds June 30, 2006

	Pension Trust Funds		
	General	Public Safety	
	Employees'	Officers'	
	Retirement	Retirement	
	System	System	Total
Assets			
Cash and cash equivalents	\$ 26,592	\$ 344,780	\$ 371,372
Bonds	578,731	3,062,676	3,641,407
Common stocks	271,718	3,892,137	4,163,855
Receivables - Accrued interest	-	39,377	39,377
	<u>877,041</u>	<u>7,338,970</u>	<u>8,216,011</u>
Total assets			
	<u>877,041</u>	<u>7,338,970</u>	<u>8,216,011</u>
Net Assets - Held in trust for employees' retirement systems	<u>\$ 877,041</u>	<u>\$ 7,338,970</u>	<u>\$ 8,216,011</u>

City of Gibraltar, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Pension Trust Funds Year Ended June 30, 2006

	General Employees' Retirement System	Public Safety Officers' Retirement System	Total
Additions			
Investment income:			
Interest and dividends	\$ 16,076	\$ 330,249	\$ 346,325
Investment expense	(22,384)	(25,018)	(47,402)
Net increase in fair value of investments	<u>23,702</u>	<u>136,696</u>	<u>160,398</u>
Net investment income	17,394	441,927	459,321
Contributions:			
Employer	71,704	26,679	98,383
Employee	<u>14,943</u>	<u>39,444</u>	<u>54,387</u>
Total contributions	<u>86,647</u>	<u>66,123</u>	<u>152,770</u>
Total additions	104,041	508,050	612,091
Deductions - Benefit payments	<u>3,675</u>	<u>340,323</u>	<u>343,998</u>
Net Increase in Net Assets	100,366	167,727	268,093
Net Assets Held in Trust for Pension Benefits			
Beginning of year	<u>776,675</u>	<u>7,171,243</u>	<u>7,947,918</u>
End of year	<u><u>\$ 877,041</u></u>	<u><u>\$ 7,338,970</u></u>	<u><u>\$ 8,216,011</u></u>

City of Gibraltar, Michigan

Other Supplemental Information Balance Sheet - Modified Accrual Basis of Accounting Component Unit Year Ended June 30, 2006

	Downtown Development Authority
Assets	
Cash and investments	\$ 126,032
Accrued interest and dividends	4,599
Total assets	<u><u>\$ 130,631</u></u>
Liabilities and Fund Balances	
Liabilities - Accounts payable	\$ 2,333
Fund Balance - Unreserved	<u>128,298</u>
Total liabilities and fund balances	<u><u>\$ 130,631</u></u>
Fund Balance of DDA	\$ 128,298
Capital assets used in the DDA are recorded in the statement of net assets	3,771,165
Accrued interest on long-term liabilities is recorded in the statement of net assets	(20,327)
Long-term liabilities are not due and payable in the current period and are recorded in the statement of net assets	<u>(3,265,000)</u>
Net Assets of DDA	<u><u>\$ 614,136</u></u>

City of Gibraltar, Michigan

Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balance Modified Accrual Basis of Accounting Component Unit Year Ended June 30, 2006

	Downtown Development Authority
Revenues	
Property taxes	\$ 529,216
Interest and rentals	6,629
Total revenues	535,845
Expenditures	
Community maintenance and development	244,728
Capital outlay and other	3,911
Debt service - Interest	123,433
Debt service - Principal payment	120,000
Total expenditures	492,072
Net Change in Fund Balance	43,773
Fund Balance - Beginning of year	84,525
Fund Balance - End of year	\$ 128,298
Net Change in Fund Balance of DDA	\$ 43,773
Amounts reported for the DDA in the statement of activities are different because:	
Capital outlay expenditures are allocated over their estimated useful lives as depreciation in the statement of activities	(103,735)
Repayment of bond principal is not an expenditure in the statement of activities (where it reduces long-term debt)	120,000
Accrued interest expense on long-term debt is recorded in the statement of activities	449
Change in Net Assets of DDA	\$ 60,487



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September 1, 2006

To the Honorable Mayor and
Members of the City Council
City of Gibraltar
29450 Munro Street
Gibraltar, MI 48173

Dear Mayor and Council Members:

We recently completed the audit of the financial statements of the City of Gibraltar, Michigan (the "City") for the year ended June 30, 2006. In addition to the audit report, we offer the following comments for your consideration:

State-shared Revenue

Municipalities in Michigan have and will continue to feel the effects of the slowdown in the State's economy. State-shared revenue totaled \$426,102 for the State's 2006 fiscal year and accounted for 13 percent of the City's total General Fund revenue (as recently as the year ended 2000 the City received \$575,630). Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue-sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue-sharing line item in the State's budget, revenue-sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to state-shared revenue payments, the State's budget situation remains troublesome at best. It is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state-shared revenue as this line item in the State's budget remains vulnerable.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$135,000 at risk in its General Fund budget based on the State's budget for the 2006-2007 year. We will continue to update the City as developments occur. The statutory formula expires in 2007 and requires action by the legislature.

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Property Taxes

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2006	3.3%	2001	3.2%
2005	2.3%	2000	1.9%
2004	2.3%	1999	1.6%
2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%

As indicated above, growth in existing property is significantly limited due to Proposal A to an average of 2.48 percent annually over the past 10 years. This factor should be considered when the City is involved in long-term financial planning.

The Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth in the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. As a result, despite general operating charter mills of 20, currently the Headlee limited mills are 15.34 (a reduction of over 23 percent).

Water and Sewer Fund

Working Capital and Reserves - The Water and Sewer Fund has depleted much of its working capital (current assets less current liabilities is less than customer accounts receivable). In addition, the system does not have existing reserves for significant maintenance or improvements. This is important because the fund has fixed assets with a historical cost of \$13.96 million that has accumulated \$3.86 million of depreciation and no plan or reserves to replace the depreciated items. We would encourage the City to consider implementing a reserve program when considering the user fees on a go-forward basis, in addition to the other suggestions included in our spring 2006 memo issued to Council.

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Reconciling Activities

During our testing, we again noted instances of a lack of reconciliation between the subsidiary ledger details and the general ledger for the performance bond accounts. While the discrepancies noted were not material to the City's financial statements, we would suggest that timely, recurring reconciliations be performed related to these items.

Fund Deficit

As of June 30, 2006, the City's Major Streets Fund has an accumulated deficit of \$336,811. The State will require that a deficit elimination plan be filed. We would encourage the City to formulate a long-range financial projection for the Major Streets Fund in an effort to adequately plan for the reduction of this deficit.

In addition, the Major Streets Fund owes the General Fund \$42,065 and the Land Fund \$498,568 related to cash loaned to the Major Streets Fund in 2005 for road construction. We would encourage the City to monitor the Major Streets Fund's cash situation and to repay these loans when funds become available.

Retirement Systems

In the current year, the City made actuarial suggested contributions of \$71,704 for the General Employees' system and \$27,679 for the Public Safety Officers' system. We would urge the City to continue to meet actuarial suggested contributions as it did in the current year. In addition, going forward it appears that contributions may be required for both plans so we suggest planning for this in the City's long-range financial plan.

Retiree Health Care Benefits

As discussed in last year's letter, the Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets. Since the City has less than 100 participants, this valuation will not need to be performed by an actuary. This statement is effective for the City's fiscal year ending June 30, 2009.

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To the Honorable Mayor and
Members of the City Council
City of Gibraltar

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September 1, 2006

Currently, the City does not have any funds designated to begin funding this liability. We would encourage the City to start setting aside funds for this liability. One method would be to establish a separate Special Revenue Fund under PA ACT 149 of 1999. This would allow for the investment of the designated funds in accordance with the Pension Act and allow for the potential of a greater return on the related investments.

We would like to thank the City staff again this year for the cooperation and assistance they provided during the audit. If you have any questions or would like to discuss these items further, please feel free to contact us at your convenience.

Yours truly,

Plante & Moran, PLLC



Blake M. Roe



William E. Brickey

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